VZCZCXRO7520
OO RUEHBZ RUEHDU RUEHJO RUEHMR RUEHRN
DE RUEHSB #1064/01 3381447
ZNR UUUUU ZZH
O 031447Z DEC 08
FM AMEMBASSY HARARE
TO RUEHC/SECSTATE WASHDC IMMEDIATE 3765
INFO RUCNSAD/SOUTHERN AF DEVELOPMENT COMMUNITY COLLECTIVE
RUEHAR/AMEMBASSY ACCRA 2468
RUEHDS/AMEMBASSY ADDIS ABABA 2593
RUEHRL/AMEMBASSY BERLIN 1086
RUEHBY/AMEMBASSY CANBERRA 1862
RUEHDK/AMEMBASSY DAKAR 2217
RUEHKM/AMEMBASSY KAMPALA 2642
RUEHNR/AMEMBASSY NAIROBI 5070
RUEAIIA/CIA WASHDC
RUZEJAA/JAC MOLESWORTH RAF MOLESWORTH UK
RHMFISS/EUCOM POLAD VAIHINGEN GE
RHEFDIA/DIA WASHDC
RUEHGV/USMISSION GENEVA 1734
RHEHAAA/NSC WASHDC

UNCLAS SECTION 01 OF 03 HARARE 001064

SENSITIVE
SIPDIS

AF/S FOR B. WALCH
DRL FOR N. WILETT
ADDIS ABABA FOR USAU
ADDIS ABABA FOR ACSS
STATE PASS TO USAID FOR E. LOKEN AND L. DOBBINS
STATE PASS TO NSC FOR SENIOR AFRICA DIRECTOR B. PITTMAN

E.O. 12958: N/A
TAGS: EFIN ECON PGOV PHUM PREL ASEC ZI
SUBJECT: ASSESSING THE DOLLAR STORES: POOR PERFORMANCE SO FAR

SUMMARY

¶1. (SBU) The Reserve Bank of Zimbabwe (RBZ) issued foreign currency licenses to Zimbabwean retail stores and manufacturers in September to try to generate the foreign currency required to boost domestic production. Our survey of local retailers and discussions with managers indicate that foreign currency sales at these stores have been low, and capacity utilization has not improved. Furthermore, the licenses have led to accelerated dollarization in both the formal and informal markets, which has cut off virtually all but the wealthiest Zimbabweans from accessing imported goods as well as many locally-produced products. Manufacturers, who had initially supported the issuing of foreign currency licenses, are now lobbying for their repeal. END SUMMARY.

How It All Began

¶2. (SBU) Local manufacturers lobbied for the introduction of foreign currency licenses that would remove bans on pricing goods in foreign currency. Their rationale was that these licenses would generate hard currency profits that would enable them to import the foreign raw materials and replacement parts required to increase production. The Confederation of Zimbabwe Industries (CZI)--a manufacturing trade organization--argued that the RBZ would merely be formalizing a practice that was already widespread, as observers believe that half of the transactions within Zimbabwe are now being conducted in forex. When foreign currency licenses were eventually introduced, there were a number of unfavorable restrictions attached to their use, including extensive documentation and a 15 percent tax by the RBZ on foreign currency sales.

Large Numbers Licensed; Few Operational

¶3. (SBU) RBZ statistics show that as of November 10, 2008, 1,024 shops have been licensed, with only 21 percent operational. Licenses were priced at US$20,000, payable over a 90 day period. According to Dave Mills, a director of Meikles Africa Ltd which controls the local chain TM Supermarkets, there was a perception by the RBZ that there was a lot of forex circulating in Zimbabwe that could be harnessed by establishing foreign currency-licensed shops. As a result, TM was actually given 62 licenses (33 for supermarkets and 29 for department stores), even though the group had not applied for them. Our survey of five foreign currency-licensed retailers (Bon Marche, Classic, OK, Spar, and TM) revealed that none of the ten associated stores we visited had paid their license fees, and all were adopting a "wait and see" attitude to assess if the licenses were profitable.

Goods Sold in Forex Now Readily Available

¶4. (SBU) From our survey, it was apparent that foreign currency-licensed stores were stocking both imported and locally manufactured goods. Locally-owned franchises of foreign chains had more imported products than unaffiliated local stores that were wholly dependent on domestic suppliers. We were told that most foreign goods came from

South Africa and were financed through foreign credit lines. As a result, local retailers and manufacturers without foreign affiliation are at a tremendous disadvantage as they are forced to rely on the parallel foreign currency market to get the hard currency required to buy foreign goods for resale or foreign inputs for production.

¶5. (SBU) Wisdom Mudarikiri, the executive director of local bread manufacturer Superbake, told us on November 7 that his company has had to sell bread for cash in Zimbabwe dollars and turn it quickly into foreign exchange needed to import yeast and food preservatives. Recently, the company has been finding it difficult to find enough foreign exchange from the street as most dealers are now keeping it for their own purchases.

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Foreign Credit Advantageous But Hard to Access
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¶6. (SBU) Even though the RBZ has reduced the top-line tax on sales of foreign priced goods to 5 percent for firms with foreign financing--versus 7.5 percent for those without foreign financing--international credit is hard to come by. Albert Katsande, the chief operations officer of OK Zimbabwe Limited and Themba Ndebele, the chief executive officer of Truworth Zimbabwe Limited, told us on November 7 that they found it difficult to access foreign lines of credit to import goods from South African suppliers because of Zimbabwe's poor credit record. Mills does not have this problem because TM Supermarket has a relationship with Pick and Pay of South Africa.

Zimbabwe Dollar Priced Commodities Scarce

¶7. (SBU) While some basic commodities such as bread, cooking oil, eggs, mealie meal, milk and salt, are required to be priced in Zimbabwe dollars, if the retailer can demonstrate that the product is imported or that the raw materials used to produce the product were imported, then the item can be priced in foreign currency. Our survey showed that the shelves dedicated to selling basic commodities in Zimbabwe

dollars were either empty or had the products priced in foreign currency. Those shops that sold these goods in local currency were priced so highly that they were unaffordable to average Zimbabweans. Mills told us that the introduction of foreign currency-licensed stores has had the perverse effect of forcing even locally manufactured goods to be sold in U.S. dollars as retailers and other businesses strive to preserve value. Unfortunately, workers who are not paid in foreign exchange have been cut out of the market as dollarization takes over.

Just Not Enough Business

¶8. (SBU) All the foreign currency-licensed stores we visited reported low sales because of competition and insufficient quantities of foreign currency in circulation. Katsande and Mills said they faced stiff price competition from unlicensed shops that sold in foreign currency, but did not have the additional cost of the 15 percent tax levied by the RBZ in the form of surrender requirements. As a result, those shops are able to offer lower prices. Although the RBZ reduced the tax for licensed shops to 7.5 percent on November 13, their prices remain higher than those of unlicensed shops.

Additionally, there are insufficient U.S. dollars circulating in Zimbabwe to generate meaningful sales. Philip Chigumira, the chief executive officer of Cairns Holdings Limited said that in one of their two foreign currency-licensed stores, they make as little as US$200 per day.

Capacity Hasn't Picked Up

¶9. (SBU) Local manufacturers stated that capacity utilization has not improved because the new regulations require that sales of foreign currency priced goods--even when sold locally--are treated as if they were exports. This process requires extensive documentation. Chigumira told us November 13 that these documentary delays needlessly tie up working capital, and suppliers are demanding payment within seven days. Consequently, the CZI told us that they had written to RBZ governor Gono requesting that he repeal the foreign currency licensing program.

COMMENT

¶10. (SBU) Foreign currency shops were intended to generate forex for retailers, manufacturers, and of course the RBZ. While they have only been in operation for a couple of months, the low formal dollar sales have not meaningfully benefited any of these parties. Dollarization was already widespread and inevitable because of the well-documented fall of the Zimbabwean dollar. While we will continue to assess their performance, foreign currency stores have merely made foreign goods more accessible to wealthy clients and placed the formal sector at a disadvantage to unlicensed competition. END COMMENT.

McGee